

Message Text

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ACTION ARA-10

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FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 1082
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UNCLAS SECTION 1 OF 2 BRASILIA 2964

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SUBJECT: SIMONSEN VISIT TO U.S.: BRAZILIAN PRESS COMMENT

1. SUMMARY. THIS TELEGRAM SUMMARIZES SUBSTANTIVE
BRAZILIAN PRESS COMMENT ON FINANCE MINISTER SIMONSEN'S
VISIT TO THE US. END SUMMARY.

2. SIMONSEN'S VISIT TO THE US HAS HAD EXTENSIVE SUB-
STANTIVE NEWS COVERAGE IN ALL MAJOR PAPERS, BASED ON
DAILY BACKGROUNDEERS BY THE MINISTER AND HIS PARTY.
MAJOR SUBJECTS COVERED INCLUDED THE PROSPECTS FOR
FINANCING FROM US BANKS, BRAZIL'S INFLATION PROBLEM,
IBRD PROJECT FINANCING, THE BRAZIL-IRANIAN DISCUSSIONS
IN NEW YORK (COVERED IN SEPTTEL), US COMMERCIAL POLICY
(INCLUDING THE PRESIDENT'S DECISION ON SHOE IMPORTS),
US HUMAN RIGHTS POLICY IN THE IFI'S, THE SIMONSEN-
BLUMENTHAL TALKS, AND THE REACTIVATION OF THE CONSUL-
TATIVE GROUP. FROM A PUBLIC RELATIONS STANDPOINT, THE
MINISTER'S VISIT TO NEW YORK AND WASHINGTON WAS HIGHLY
SUCCESSFUL.

3. POLITICAL DIMENSION OF VISIT. O ESTADO DE SAO PAULO,
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APRIL 3, SAID THAT SIMONSEN'S VISIT HAD SUDDENLY INCREASED
IN IMPORTANCE AS A RESULT OF PRESIDENT GEISEL'S DECISION TO
RECESS THE NATIONAL CONGRESS. ON APRIL 5, THE PAPER
REPORTED THE MINISTER HAD CALMED US BANKERS OVER THE
POLITICAL SITUATION, STRESSING THAT THE RECESS WOULD NOT BE
OF A REGRESSIVE CHARACTER AND THAT THE NATIONAL CONGRESS
MIGHT EVEN ON APRIL 11 RESUME ITS ACTIVITIES. SIMONSEN,

THE PAPER SAID, HAD USED A COPY OF THE CONSTITUTION TO DEMONSTRATE THAT PRESIDENT GEISEL'S ACTION WAS LEGAL (I.E. ARTICLE 182). THE MINISTER WAS SUCCESSFUL IN THIS EFFORT, THE PAPER COMMENTED, SINCE HIS AMERICAN INTERLOCUTORS COULD NOT GRASP THE EUPHEMISM--I.E., THAT ARTICLE 182 WAS A SYNONYM FOR INSTITUTIONAL ACT NO. 5.

4. LENDING PROSPECTS FROM U.S. BANKS. PRESS REPORTS STATED THAT SIMONSEN ALSO SOUGHT TO REASSURE US BANKERS ON BRAZIL'S BALANCE OF PAYMENTS PROSPECTS, STRESSING THE EFFORT TO BRING THE TRADE BALANCE INTO EQUILIBRIUM AND REDUCE EXTERNAL BORROWING REQUIREMENTS. THIS TENDENCY HAD ALREADY CONFIRMED ITSELF IN THE LAST THREE MONTHS. THE REDUCTION HAD RESULTED PRINCIPALLY FROM THE PUBLIC SECTOR WHICH AVOIDED RECOURSE TO THE INTERNATIONAL MONEY MARKET. HOWEVER, THE INCREASE IN DOMESTIC INTEREST RATES, FOLLOWING THE FREEING OF THE RATES, HAD HAD THE RESULT THAT (PRIVATE) COMPANIES RESORTED TO EXTERNAL FINANCING.

5. ACCORDING TO JORNAL DO BRAZIL, APRIL 8, SIMONSEN WAS GREATLY ENCOURAGED BY HIS TALKS WITH US BANKERS. HE FORESAW NO CHANGE IN THE FINANCIAL RELATIONS BETWEEN THE TWO COUNTRIES. RETURNING TO THIS THEME TWO DAYS LATER, AFTER A BREAKFAST MEETING WITH DAVID ROCKEFELLER, SIMONSEN SAID US BANKS WERE CONTINUING TO INCREASE THEIR LOANS TO BRAZIL. HOWEVER, SINCE BRAZILIAN REQUIREMENTS HAD DIMINISHED, BRAZIL WOULD USE LESS RESOURCES THAN THE "OPEN DOORS" OF THE US FINANCIAL MARKET WOULD PERMIT.

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6. HUMAN RIGHTS ISSUE. SIMONSEN REPORTEDLY TOLD O ESTADO APRIL 10 THAT THE CARTER ADMINISTRATION WAS FALLING BACK FROM ITS INFLEXIBLE POSITION ON HUMAN RIGHTS. THIS TREND HAD BEEN OBSERVED BY AMBASSADOR PINHEIRO AS WELL AS THE BRAZILIAN IMF REPRESENTATIVE, ALEXANDER KAFKA. ALTHOUGH THEY CONSIDER IT RASH TO MAKE PREDICTIONS, THEY CONCEDE, THE PAPER SAID, THAT INTERNAL PRESSURES IN THE ADMINISTRATION MAY LEAD PRESIDENT CARTER TO ADOPT A MORE FLEXIBLE POSITION. INDICATIONS OF THIS, THE PAPER SAYS, ARE THE FAILURE OF THE VANCE MISSION IN MOSCOW, CONCERN IN THE US CONGRESS OVER THE DECISION OF BRAZIL AND FOUR OTHER COUNTRIES TO RENOUNCE MILITARY ASSISTANCE AGREEMENTS, AMBASSADOR TODMAN'S TESTIMONY, AND THE EFFORTS OF SECRETARY BLUMENTHAL IN FAVOR OF THE REUSS AMENDMENT. (AS OPPOSED TO THE HARKIN/BADILLO AMENDMENT). FROM ALL THE GREAT BANKERS IN NEW YORK, THE PAPER REPORTED, SIMONSEN HAD HEARD CRITICISM OF THE ADMINISTRATION'S HUMAN RIGHTS POLICY. "I HAVE THE IMPRESSION," SIMONSEN IS QUOTED, "THAT THE WHOLE ENTREPRENEURIAL COMMUNITY IS AGAINST THE PRESIDENT, AND THIS

POSITION WILL CERTAINLY PROVOKE A REACTION WITHIN THE EXECUTIVE; THIS EXPLAINS, AT LEAST IN PART, TREASURY SECRETARY BLUMENTHAL'S STRATEGY OF RETREAT." ACCORDING TO OTHER PRESS REPORTS, SIMONSEN ALSO TOOK UP THE HUMAN RIGHTS ISSUE SPECIFICALLY WITH KNAPP AND VASENE AT THE IBRD WHERE HE REPORTEDLY FOUND CONSIDERABLE CONCERN OVER POSSIBLE VIOLATION OF THE IBRD'S STATUTES.

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7. SHOES. THE MOST REVEALING REPORT ON THIS SUBJECT WAS GAZETA MERCANTIL'S ARTICLE "DOUBTS IN WASHINGTON", APRIL 9. ACCORDING TO THE PAPER'S WASHINGTON CORRESPONDENT, ANTONIO PIMENTA, AMBASSADOR PINHEIRO, IN "THE SOMEWHAT DISORGANIZED ATMOSPHERE" FOLLOWING SIMONSEN'S MEETING WITH WITTEVEEN, OPENLY DISAGREED WITH SIMONSEN ON THE OUTLOOK FOR IMPORT RESTRICTIONS AGAINST BRAZIL. SIMONSEN SAID HE FORESAW NO PROBLEM FOR BRAZIL IF BY CHANCE BRAZILIAN SHOE EXPORTS TO THE U.S. SHOULD INCREASE. OVER LUNCH HE HAD ASKED SECRETARY BLUMENTHAL WHAT BRAZIL WOULD HAVE TO DO TO AVOID U.S. IMPORT RESTRICTIONS BEING EXTENDED TO BRAZIL. THE ANSWER, ACCORDING TO THE MINISTER, HAD BEEN "NOTHING". PINHEIRO DISAGREED, BECAUSE "EVERYONE WOULD LET GO EXPORTING SHOES AND THE CHOPPING KNIFE WOULD COME DOWN ON OUR NECK." LATER ON PINHEIRO SAID, "YOU REASON THAT WHAT BLUMENTHAL SAID WILL STICK BUT THINGS DO NOT WORK HERE THIS WAY. WE MUST ADOPT A PRUDENT COURSE." SIMONSEN, SUPPORTED BY DORNELLES, REAFFIRMED HIS POSITION THAT THERE WERE NO PROBLEMS ON THE HORIZON: BRAZILIAN SHOE EXPORTS WOULD NOT EXPLODE, BRAZIL'S MARKET SHARE WAS VERY SMALL, AND BRAZIL WAS NOT GOING TO OCCUPY THE SPACE LEFT BY KOREA AND FORMOSA, WHICH SELL SHOES VERY CHEAPLY.

8. LENDING POLICIES OF COMMERCIAL BANKS. O ESTADO, APRIL
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8, REPORTED THAT SIMONSEN WAS EXCEEDINGLY DISTURBED OVER THE SUGGESTION, PUT FORWARD BY WITTEVEEN IN MANILA, THAT PRIVATE BANKS LINK THE AGREGATE OF THEIR LOANS TO THE CAPACITY OF RECIPIENTS TO MAKE CONDITIONAL DRAWINGS FROM THE IMF. SIMONSEN DID NOT EXPECT THE SUBJECT TO BE RAISED AT THE NEXT MEETING OF THE IMF INTERIM COMMITTEE ON APRIL 26, BUT HAD NOT BEEN ABLE TO EVALUATE SECRETARY BLUMENTHAL'S INCLINATION TO CARRY ON FROM HIS PREDECESSOR, WHO HAD SUPPORTED THE PROPOSAL. THE BRAZILIAN POSITION WOULD CONTINUE TO BE ONE OF OPPOSITION TO SUCH A LINK, FIRSTLY BECAUSE IT WOULD RESTRICT ACCESS TO THE INTERNATIONAL MONEY MARKET, AND SECONDLY BECAUSE SUCH "STANDBY" CREDIT PRESUPPOSES CONTROL BY THE IMF OVER THE RECIPIENT'S ECONOMIC POLICIES. (THE VIEW OF ALEXANDER KAFKA, THE PAPER SAID, WAS MORE RELAXED SINCE THE "STANDBY" WOULD APPLY ONLY TO COUNTRIES WITH VERY HIGH GLOBAL BALANCE-OF-PAYMENTS DEFICITS AND VERY LOW RESERVES.)

9. SIMONSEN-BLUMENTHAL MEETING. PRESS INDICATED THAT SIMONSEN WAS PLEASED WITH THE GENERAL TONE OF HIS DISCUSSIONS WITH BLUMENTHAL AND THE DECISIONS THAT RESULTED THEREFROM. SIGNALLED AS THE CONCRETE RESULTS OF THE MEETING WERE:
(A) THE IMMEDIATE REACTIVATION OF THE BRAZIL-U.S. CONSULTATIVE MECHANISM ESTABLISHED DURING LAST MAY'S SIMON-SIMONSEN TALKS IN BRASILIA, AND
(B) A U.S. TREASURY REEXAMINATION OF THE CALCULATIONS USED TO DETERMINE THE CUSTOMS SURTAX ON BRAZILIAN COTTON YARN AND SCISSORS AND SHEARS EXPORTS.
IN MORE GENERAL TERMS, SIMONSEN WAS REPORTED AS BEING PLEASED THAT THE MEETING HAD, IN HIS VIEW, SUCCEEDED IN PUTTING BRAZIL-U.S. ECONOMIC RELATIONS BACK AT THE LEVEL OF COOPERATION ESTABLISHED LAST MAY.

10. THE PRESS REPORTED THAT THE SIMONSEN-BLUMENTHAL MEETING COVERED A WIDE RANGE OF TOPICS IN ADDITION TO THOSE INDICATED IN THE PRECEEDING PARAGRAPH. THE SHOE ISSUE WAS DISCUSSED AT GREAT LENGTH (SEE PARA. 7) AS THE POLICY
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OF IFI'S. SIMONSEN SAID THAT EH HUMAN RIGHTS ISSUE WAS TOUCHED UPON ONLY BRIEFLY, BECAUSE IT WAS A SUBJECT THAT FELL OUTSIDE THE COMPETENCE OF BOTH HIM AND BLUMENTHAL. BOTH PARTIES AGREED TO AN ACCELERATION OF THE PRELIMI-

NARIES FOR THE SIGNING OF A U.S.-BRAZIL DOUBLE-TAXATION
TREATY. THE PRESS ALSO REPORTED THAT SIMONSEN GAVE AN
OVERVIEW OF THE BRAZILIAN ECONOMIC SITUATION AND STRESSED
THAT BRAZIL RECOGNIZED THE IMPORTANCE OF FOREIGN CAPITAL
AND HAD NO PLANS FOR ALTERING ITS TREATMENT.
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